

LAW CORPORATION RULES OF THE STATE BAR OF CALIFORNIA

Adopted November 1968; Amended October, 1971; Amended February, 1975; Amended May, 1986; Amended February, 1991; Amended January, 1994.

I. CITATION OF RULES

These Rules may be cited and referred to as "Law Corporation Rules". They are subject to amendment, modification, revision, supplement, repeal or other change by appropriate action in the future.

II. PLACE OF FILING

All applications, reports and other documents required to be filed with the State Bar by these Rules shall be signed and verified by an officer of the applicant and filed at the office of the State Bar in San Francisco, California.

III. APPLICATIONS; REVIEW OF REFUSAL TO APPROVE

- A. An applicant for registration as a law corporation shall file with the State Bar an application for Certificate of Registration, on a form furnished by the State Bar, and pay a fee in an amount to be determined by the State Bar.
- B. The chief executive officer of the State Bar or a person or persons designated by the chief executive officer shall review each application for registration of a law corporation and within a reasonable time thereafter approve the application or refuse to approve the application and notify the applicant of the reasons therefor. A request for further information or a request that the application be amended may be deemed by the applicant to be a refusal to approve the application. The effective date of the Certificate of Registration shall be the date on which the applicant has filed with the State Bar all material required for approval of the application, provided however, that:
 - 1. a later effective date may be granted if requested on behalf of the applicant prior to the issuance of the Certificate of Registration, or
 - 2. in the discretion of the person or persons authorized to approve applications, an earlier effective date may be granted if the interests of justice require and good cause appears therefor.
- C. An applicant may request a review of a refusal to approve its application within 60 days of notice of such refusal. The request shall be heard by a committee or committees appointed by the Board of Governors. Such hearing shall be reported and an original and one copy of the transcript of the proceedings shall be prepared. Upon the completion of such hearing the committee shall either (1) approve the application and order the issuance of a Certificate of Registration or (2) request further information or amendments or (3) refuse to approve the application. A request for further information and amendments may be deemed by the applicant to be a

refusal to approve the application. The committee shall report in writing its findings of fact and the reasons for its order. Notice of the order and a copy of the report shall be mailed to the applicant.

- D. Review of the order relating to refusal to approve the application shall be made by the Board of Governors or a committee or committees appointed for that purpose by it. The Board of Governors or committee conducting such review shall keep a record thereof and enter in its minutes its findings of fact and decision and make such orders as may be appropriate. Notice of such action shall be mailed to the applicant.
- E. All proceedings under subsections C and D of this Rule III shall be confidential, unless otherwise requested by the applicant and approved by the Board of Governors or committee. Insofar as applicable, the Rules of Procedure of the State Bar shall apply to such proceedings. For the purpose of applying the Rules of Procedure, the word member therein shall be deemed to mean law corporation. The action by the Board of Governors or committee is subject to review by the Supreme Court pursuant to its Rules.

IV. REQUIREMENTS FOR ISSUANCE OF CERTIFICATE OF REGISTRATION

- A. A Certificate of Registration shall be issued if the application shows that:
 - 1. the applicant is organized and exists as a professional corporation certified by the California Secretary of State;
 - 2. (a) each shareholder is an active member of the State Bar or is licensed to practice law in the jurisdiction or jurisdictions in which the person practices, and (b) each director and officer (except as provided in §.13403 of the Corporations Code) is a shareholder of the applicant;
 - 3. if applicant has only one or two shareholders, it complies with §13403 of the Corporations Code;
 - 4. except as provided in §(10)(a) below, each employee of the applicant who will practice law, whether or not a director, officer, or shareholder, is an active member of the State Bar or is licensed to practice law in the jurisdiction or jurisdictions in which the person practices;
 - 5. the name of the corporation and any name or names under which it may practice law complies with the California Rules of Professional Conduct and that the name includes wording or abbreviations denoting corporate existence such as "Professional Corporation," "Prof. Corp.", "Corporation", "Corp.", "incorporated", or "Inc.";
 - 6. applicant has complied with the provisions of Section C of this Rule IV;
 - 7. applicant has provided and will maintain in effect security for claims against it by its clients for errors and omissions arising out of the practice of law as required by Section B of this Rule IV;
 - 8. applicant's affairs will be conducted in compliance with law and the rules and regulations of the State Bar;

9. applicant has included, for each shareholder of the corporation licensed in a foreign country but not in this state or in any other state, territory, or possession of the United States, a certificate from the authority having final jurisdiction over the practice of law, which shall verify the shareholder's admission to practice law in the foreign country, the date thereof, and the fact that the shareholder is currently in good standing as an attorney or counselor at law or the equivalent; and
10. where applicant is incorporated as nonprofit public benefit corporation under the Non-profit Public Benefit Corporation Law that:
 - a. all employees and members of the corporation and all members of the corporation's Board of Directors are licensed to practice law in California,
 - b. seventy percent of the clients of the corporation are lower income persons as defined in Section 50079.5 of the Health and Safety Code or others who would not otherwise have access to legal services, and;
 - c. the corporation does not enter into contingency fee contracts with clients.

B. Security for claims against a law corporation.

1. For a law corporation that applied to the State Bar of a Certificate of Registration prior to October 27, 1971, security for claims against it by its clients for errors or omissions arising out of the practice of law shall consist of:
 - a. a policy or policies of insurance insuring the corporation against liability imposed upon it by law for damages arising out of claims against it by its clients for errors or omissions arising out of the practice of law by the corporation in an amount for each claim of at least \$50,000 multiplied by the number of its employees who are practicing law and an aggregate maximum limit of liability per policy year of at least \$100,000 multiplied by the number of such employees, provided that the maximum coverage shall not be required to exceed \$500,000 for each claim and \$5,000,000 for all claims during the policy year, and provided further that the deductible portion of such insurance shall not exceed \$2,000 multiplied by the number of such employees,
 - b. a written agreement of the shareholders that they shall jointly and severally guarantee payment by the corporation for claims established against it by its clients for errors or omissions arising out of the practice of law by the corporation up to the minimum amounts specified for insurance under subsection (a) hereof, but without any deductible portion, or
 - c. a written agreement executed by each of the shareholders, jointly and severally guaranteeing payment by the corporation of all claims

established against it by its clients for errors or omissions arising out of the practice of law by the corporation in an amount for each claim of at least \$50,000 multiplied by the number of its employees who are practicing law with an aggregate maximum limit liability per year of at least \$100,000 multiplied by the number of such employees, provided that the maximum guarantee shall not be required to exceed \$500,000 for each claim and \$5,000,000 for all claims during the year, and provided further, that such guarantee may provide that any payment required to be made thereunder shall be offset by the amount paid by any insurance company providing errors or omissions insurance coverage for the corporation or any of its shareholders.

d. For the purpose of determining the amount of security for claims to be provided by the corporation, "employees" as used in this Rule IV-B shall include:

1. All persons practicing law on behalf of the corporation or held out by the corporation as being available to practice law on behalf of the corporation as "of counsel" or otherwise.
 2. All persons practicing law on behalf of a partnership in which the corporation is a partner or held out by such partnership as being available to practice law on behalf of the partnership as "of counsel" or otherwise.
 3. All persons practicing law on behalf of an association with which the corporation has established a relationship of a continuous nature or held out by such association as being available to practice law on behalf of the association as "of counsel" or otherwise.
2. Evidence of the foregoing security shall be furnished to the State Bar in the form of a certificate of insurance issued by the insurer setting forth the nature and extent of the liability as specified under subsection (1)(a) of this Section B or an executed copy of the written agreement specified under subsection (1)(b) or (1)(c) of this Section B.
 3. For law corporations that apply to the State Bar for a Certificate of Registration on or after October 27, 1971, security for claims against it by its clients for errors or omissions arising out of the practice of law shall consist of an executed copy of the agreement specified in subsection (1) (c) of this Section B.
 4. Until January 1, 1996, a law corporation that is incorporated as a nonprofit public benefit corporation under the Nonprofit Public Benefit Corporation Law shall be deemed to have fulfilled its obligations regarding security for claims if the corporation is the insured for claims against it arising out of the rendering of professional services on an errors and omissions insurance policy, or if no policy exists, if the Board of Directors of the corporation has made all

reasonable efforts in good faith to obtain available liability insurance and has provided adequate proof to the State Bar of the efforts.

C. Shares; ownership and transfer.

1. The shares of a law corporation may be owned only by (a) that corporation (b) by an active member of the State Bar or (c) by a person who is licensed to practice law in the jurisdiction or jurisdictions in which the person practices.
2. The shares of a law corporation owned by a person who
 - a. dies;
 - b. ceases to be an eligible shareholder, or
 - c. becomes a disqualified person as defined in §13401(e) of the Corporations Code, for a period exceeding 90 days, shall be sold and transferred to the corporation or its shareholders on such terms as are agreed upon by the corporation and its shareholders. Such sale or transfer shall occur not later than 6 months after any such death and not later than 90 days after the date he ceases to be an eligible shareholder, or 90 days after the date he becomes a disqualified person. The requirements of subsections (1) and (2) of this Section C shall be set forth in the law corporation's articles of incorporation or bylaws, except that the terms of the sale or transfer provided for in said subsection (2) need not be set forth in said articles or bylaws if they are set forth in a written agreement.
3. A corporation and its share holders may, but need not, agree that shares sold to it by a person who becomes a disqualified person for any reason other than disbarment may be resold to such person if and when he again becomes an eligible shareholder.
4. The share certificates of a law corporation shall contain an appropriate legend setting forth the foregoing restrictions.
5. The income of a law corporation attributable to its practice of law while a shareholder is a disqualified person shall not in any manner accrue to the benefit of such shareholder or his shares.

V. CERTIFICATE OF REGISTRATION; CONTINUING VALIDITY; REVOCATION AT REQUEST OF CORPORATION; INVOLUNTARY REVOCATION PROCEEDINGS

- A. A Certificate of Registration shall continue in effect until it is suspended or revoked. Such certificate may be suspended or revoked if a law corporation fails at any time to comply fully with the provisions of these rules, of the State Bar Act, of the Rules of Professional Conduct of the State Bar, of the Professional Corporations Act, and the General Corporations Law as applied to professional law corporations.
- B. Upon receipt of a resolution of the board of directors of a law corporation requesting the cancellation of the Certificate of Registration of that law corporation, such Certificate shall be cancelled by the Secretary of the State Bar or by a person or persons designated by him. The cancellation of a Certificate of Registration at the

request of a law corporation shall be effective as of the day such request is received at the State Bar office except that:

1. a later effective date shall be granted upon request of the corporation,
 2. in the discretion of the person or persons authorized to cancel Certificates, an earlier effective date may be granted if the interests of justice require and good cause appears therefor.
- C. Except for revocations and suspensions provided for in Section 6163 and 6171.1 of the California Business and Professions Code, when there is reason to believe that a law corporation has violated or is about to violate any of the provisions of Article 10 of the State Bar Act, or Part 4 of Division 3 of Title 1 of the Corporations Code, or any other pertinent statute, rule or regulation, the chief executive officer of the State Bar or a person or persons designated by the chief executive officer may issue a notice directing the corporation to show cause why it should not be ordered to cease and desist from specified acts or conduct, or why its Certificate of Registration should not be suspended or revoked.
- D. All proceedings or other actions relating to the revocation of a Certificate of Registration, other than a revocation at the request of the corporation as is provided for in Rule V-B, shall be pursuant to the provisions of Section 6163, 6168, 6169, 6170 and 6171.1 of the California Business and Professions Code.

Insofar as applicable, and not inconsistent with the foregoing Code Sections, the Rules of Procedure of the State Bar shall apply to such proceedings. For the purposes of applying the Rules of Procedure, the word member therein shall be deemed to mean law corporation.

VI. REPORTS

- A. On or before March 31, 1970 and annually thereafter each law corporation shall file an annual report covering the calendar year immediately preceding on a form provided by the State Bar, pursuant to the provisions of Section 6163 of the State Bar Act.
- B. Each law corporation shall file a special report on a form provided by the State Bar, within thirty days, of any change relating to the requirements of Rule IV of these rules, including any change in directors, officers, employees practicing law and share ownership, and amendments to its articles of incorporation and amendments to portions of its bylaws required to be filed by these rules. A copy of all notices received by a law corporation from an insurance company of termination or cancellation, or intention to terminate or cancel, insurance provided under Rule IV of these rules shall be filed forthwith with the State Bar.
- C. Each report filed pursuant to this Rule VI shall be accompanied by a filing fee in an amount to be fixed by the State Bar.
- D. A law corporation that is incorporated as a nonprofit public benefit corporation under the Nonprofit Public Benefit Corporation Law and is a recipient in good standing as

defined in Business and Professions Code section 6213, subdivision (c) shall be deemed to have satisfied the reporting requirements of section VI of these Rules.